

**VAN BUREN COUNTY HOSPITAL**  
KEOSAUQUA, IOWA

FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

## **VAN BUREN COUNTY HOSPITAL**

### **Table of Contents**

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	<b><u>Page</u></b>
<b>BOARD OF TRUSTEES AND HOSPITAL OFFICIALS</b>	1
<b>INDEPENDENT AUDITOR'S REPORT</b>	2-3
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4-5
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-23
<b>SUPPLEMENTARY INFORMATION</b>	
Independent Auditor's Report on Supplementary Information	24
Schedules	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net	
Assets – Budget and Actual (Cash Basis)	25
Net Patient Service Revenue	26
Other Operating Revenues	27
Operating Expenses	28-32
Patient Receivables and Allowance for Doubtful Accounts	33
Supplies/Prepaid Expenses	34
Community Service/Outreach Unreimbursed Services Provided by the	
Hospital to the Community	35
Statistical Information	36
<b>REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER</b>	
<b>    FINANCIAL REPORTING</b>	37-38
<b>SCHEDULE OF FINDINGS</b>	39-40

**VAN BUREN COUNTY HOSPITAL**  
**BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Blain Smith	Chairperson	2006
Lloyd Foster	Vice-Chairperson	2006
Michael Thomas	Secretary	2006
Leslie Betts	Treasurer	2004
Jeanne Erickson	Member	2008
Joan Syfert	Member	2004
David Sherod	Member	2008
<u>Hospital Officials</u>		
Lisa Schnedler	Administrator	
Helen Holland	Chief Financial Officer	



Consultants • Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Van Buren County Hospital  
Keosauqua, Iowa

We have audited the accompanying balance sheets of **Van Buren County Hospital** as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Van Buren County Hospital** as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, effective July 1, 2003, **Van Buren County Hospital** implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. As a result, the Hospital changed its accounting policy related to financial statement presentation to comply with the provisions of GASB Statements No. 34 and No. 37. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on page 25 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2004, on our consideration of **Van Buren County Hospital's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Erin Bailey* LLP

Dubuque, Iowa  
September 2, 2004

**VAN BUREN COUNTY HOSPITAL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2004**

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This section of Van Buren County Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2004. We encourage readers to read this analysis in conjunction with the financial statements in this report.

**Financial Highlights**

- Van Buren County Hospital's total assets increased by approximately \$1,479,139, or 10.676%. A major portion of this is due to increases in investments; land, buildings, and equipment; and accounts receivable.
- Van Buren County Hospital's assets exceeded liabilities by \$8,858,377 at June 30, 2004.
- During the year, Van Buren County Hospital's total operating revenues increased approximately 13.728% to \$9,170,464, while the operating expenses increased approximately 13.03% to \$9,348,087. Van Buren County Hospital had a loss from operations of \$(177,623), which is approximately 1.92% of total operating revenue.
- Van Buren County Hospital made capital investments totaling approximately \$307,800 during the fiscal year. The source of funding for these items was derived from property tax support.

**Overview of the Financial Statements**

The basic financial statements of Van Buren County Hospital report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of Van Buren County Hospital's assets and liabilities. The balance sheet at June 30, 2004, indicates total liabilities of \$6,475,002, and net assets of \$8,858,377.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. These statements indicate total operating revenues of \$9,170,464 and total operating expenses of \$9,348,087 during fiscal year 2004. The loss from operations was \$(177,623) in 2004, compared to a loss from operations of \$(205,528) in 2003. Much of the decrease in loss from operations is attributable to a change in Medicare certification during fiscal year 2002. Van Buren County Hospital was certified as a Critical Access Hospital on May 1, 2002. Critical Access Hospitals are cost-reimbursed by Medicare, and this change in reimbursement accounted for a significant increase in the Hospital's operating revenue.

The statement of cash flows provides information about Van Buren County Hospital's cash from operations, investing, and financing activities. As reported in this statement, cash and cash equivalents increased from \$809,941 at July 1, 2003 to \$1,020,929 at June 30, 2004.

There are 11 notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of Van Buren County Hospital's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

### **Significant Budget Variations**

The most significant budget variance occurred in net patient service revenue and operating expenses. Van Buren County Hospital budgeted \$8,967,154 in net patient service revenue and other receipts, but actually earned \$9,682,325. Operating expenses were budgeted at \$9,566,792 but expenditures were actually \$9,876,076.

### **Long-Term Debt**

At year-end, Van Buren County Hospital had \$4,333,068 in long-term debt. Long-term debt consists of Rural Economic Development Service, bank notes, and capitalized leases.

### **Factors Bearing on Financial Future**

Van Buren County Hospital is planning to begin a significant building and remodeling project in fiscal year 2005. The project will update and expand most of the rural health clinics and is scheduled to be completed in two to three years.

### **Requests for Information**

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Van Buren County Hospital  
304 Franklin  
Keosauqua, IA 52565

**VAN BUREN COUNTY HOSPITAL**  
**BALANCE SHEETS**  
**JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,020,929	\$ 809,941
Receivables		
Patient, net of estimated uncollectibles		
of \$1,420,000 in 2004 and \$1,340,000 in 2003	1,839,237	1,306,989
Succeeding year property tax receivable	692,207	703,245
Other	170,876	183,937
Supplies	174,799	171,255
Prepaid expenses	<u>113,614</u>	<u>119,676</u>
 Total current assets	 <u>4,011,662</u>	 <u>3,295,043</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 3</b>		
Investments		
By board for capital improvements	1,796,904	1,789,447
Under loan agreement	310,671	186,430
By donors for specific purposes	881,184	705,015
By donors for permanent endowment fund	<u>53,087</u>	<u>53,087</u>
 Total assets limited as to use or restricted	 <u>3,041,846</u>	 <u>2,733,979</u>
 <b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 4</b>	 <u>7,688,944</u>	 <u>7,289,950</u>
 <b>OTHER ASSETS</b>		
Beneficial interest in net assets of Arnold Trust - Note 3	557,975	492,309
Patient charts	24,374	36,562
Notes receivable	<u>8,578</u>	<u>6,397</u>
 Total other assets	 <u>590,927</u>	 <u>535,268</u>
 Total assets	 <u>\$ 15,333,379</u>	 <u>\$ 13,854,240</u>

See notes to financial statements.



	<u>2004</u>	<u>2003</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 7	\$ 172,037	\$ 193,799
Accounts payable		
Trade	213,852	252,810
Estimated third-party payor settlements	100,000	82,000
Construction	50,728	87,070
Accrued expenses		
Salaries and wages	510,714	421,452
Vacation	175,147	152,557
Payroll taxes and other	88,960	63,642
Interest	129,839	43,811
Village Terrace security deposits	8,450	9,900
Deferred revenue for succeeding year property tax receivable	<u>692,207</u>	<u>703,245</u>
 Total current liabilities	 2,141,934	 2,010,286
 LONG-TERM DEBT, less current maturities - Note 7	 <u>4,333,068</u>	 <u>3,464,826</u>
 Total liabilities	 <u>6,475,002</u>	 <u>5,475,112</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,183,839	3,631,325
Unrestricted	4,740,267	3,814,049
Restricted - Note 5	<u>934,271</u>	<u>933,754</u>
 Total net assets	 <u>8,858,377</u>	 <u>8,379,128</u>
  Total liabilities and net assets	  <u>\$ 15,333,379</u>	  <u>\$ 13,854,240</u>

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$230,385 in 2004 and \$199,558 in 2003) - Note 2	\$ 8,610,796	\$ 7,597,553
Other operating revenues	<u>559,668</u>	<u>465,916</u>
TOTAL OPERATING REVENUES	<u>9,170,464</u>	<u>8,063,469</u>
OPERATING EXPENSES		
Salaries and wages	4,887,602	4,451,209
Supplies and other expenses	3,690,587	3,237,807
Depreciation and amortization	<u>769,898</u>	<u>579,981</u>
TOTAL OPERATING EXPENSES	<u>9,348,087</u>	<u>8,268,997</u>
LOSS FROM OPERATIONS	<u>(177,623)</u>	<u>(205,528)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	696,696	701,270
Noncapital grants and contributions	3,153	1,881
Investment income	67,579	92,562
Payment of interest	(192,131)	(108,662)
Gain on disposal of equipment	<u>-</u>	<u>5,457</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>575,297</u>	<u>692,508</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND CHANGE IN BENEFICIAL INTEREST IN NET ASSETS OF ARNOLD TRUST	397,674	486,980
OTHER CHANGES IN NET ASSETS		
Capital contributions	15,910	143,828
Change in beneficial interest in net assets of Arnold Trust	<u>65,665</u>	<u>1,826</u>
INCREASE IN NET ASSETS	479,249	632,634
NET ASSETS BEGINNING OF YEAR	<u>8,379,128</u>	<u>7,746,494</u>
NET ASSETS END OF YEAR	<u>\$ 8,858,377</u>	<u>\$ 8,379,128</u>

See notes to financial statements.

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 8,094,367	\$ 7,387,374
Other receipts	572,729	444,387
Payments of salaries and wages	(4,775,750)	(4,479,706)
Payments of supplies and other expenses	<u>(3,739,501)</u>	<u>(3,178,557)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>151,845</u>	<u>173,498</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County tax revenue received	696,696	701,270
Noncapital grants and contributions received	<u>3,153</u>	<u>1,881</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>699,849</u>	<u>703,151</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(1,156,705)	(2,677,409)
Capital contributions received	15,910	143,828
Payment of principal on debt	(204,537)	(207,845)
Payment of interest on debt	(106,103)	(148,583)
Proceeds from issuance of long-term debt	1,051,017	1,578,982
Proceeds from sale of equipment	<u>-</u>	<u>18,200</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(400,418)</u>	<u>(1,292,827)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in assets limited as to use or restricted	(307,867)	(70,128)
Investment income received	<u>67,579</u>	<u>92,562</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u>(240,288)</u>	<u>22,434</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	210,988	(393,744)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>809,941</u>	<u>1,203,685</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,020,929</u>	<u>\$ 809,941</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF LOSS FROM OPERATIONS		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (177,623)	\$ (205,528)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	769,898	579,981
Provision for bad debts	230,385	199,558
Changes in assets and liabilities		
Receivables	(751,753)	(363,266)
Supplies	(3,544)	8,013
Prepaid expenses	6,062	(45,391)
Accounts payable	(75,300)	111,007
Estimated third party payor settlements	18,000	(68,000)
Village Terrace security deposits	(1,450)	9,900
Accrued expenses	<u>137,170</u>	<u>(52,776)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 151,845</u>	<u>\$ 173,498</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Van Buren County Hospital (Hospital) is a 25-bed public hospital located in Keosauqua, Iowa, and is organized under Chapter 347 of the Iowa Code and governed by a seven member Board of Trustees elected for alternating terms of six years. The Hospital also operates Village Terrace, a 10-unit assisted living facility. The Hospital has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

*Reporting Entity*

For financial reporting purposes Van Buren County Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

*Basis of Presentation*

Effective July 1, 2003, the Hospital implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the Hospital.

GASB Statements No. 34 and No. 37 relate to changes in financial statement presentation. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet; a statement of revenues, expenses, and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt, unrestricted, and restricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Hospital’s policy to use restricted resources first.

The adoption of Statement No. 34 resulted in the previously reported unrestricted fund balance amounts being classified to conform to the above net asset classifications. Additionally, the Hospital restated the 2003 statement of cash flows to conform to the direct method of reporting cash receipts and disbursements.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

*Basis of Accounting*

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants’ *Audits of Providers of Health Care Services* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB).

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased, excluding assets limited as to use or restricted.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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*Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

*Notes Receivable*

Notes receivable are stated at principal amounts plus accrued interest and are uncollateralized. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. Management reviews all notes receivable periodically and estimates a portion, if any, of the balance that will not be collected.

*Supplies*

Supplies are stated at lower of cost (first-in, first-out) or market.

*Assets Limited as to Use or Restricted*

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; and assets under loan agreement.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Hospital for its stated purposes.

*Land, Buildings, and Equipment*

Land, buildings, and equipment acquisitions in excess of \$1,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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The estimated useful lives of property and equipment are as follows:

Land improvements	10-30 years
Buildings and improvements	5-50 years
Equipment	3-25 years

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$30,025 and \$41,059 for advertising costs for the years ended June 30, 2004 and 2003, respectively.

*Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

*Compensated Absences*

Hospital employees accumulate a limited number of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004.

*Deferred Revenue*

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable.

*Net Assets*

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt* or *restricted*.



**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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*Operating Revenues and Expenses*

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

*Net Patient Service Revenue*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*Charity Care*

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

*Grants and Contributions*

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

*Restricted Resources*

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

*Reclassifications*

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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*Other Significant Accounting Policies*

Other significant accounting policies are set forth in the financial statements and the notes thereto.

**NOTE 2 – NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare:** The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the period ended June 30, 2002. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2002.

**Clinics:**

The clinics are designated as Certified (Provider Based) Rural Health Clinics by the Medicare and Medicaid programs. As a result, clinical services rendered to Medicare and Medicaid program beneficiaries are reimbursed at cost.

**Other Payors:**

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Total patient service revenue	\$ 11,406,789	\$ 10,048,001
Contractual adjustments		
Medicare	(1,792,794)	(1,450,973)
Medicaid	(357,260)	(459,060)
Other	<u>(415,554)</u>	<u>(340,857)</u>
Total contractual adjustments	<u>(2,565,608)</u>	<u>(2,250,890)</u>
Net patient service revenue	8,841,181	7,797,111
Provision for bad debts	<u>(230,385)</u>	<u>(199,558)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 8,610,796</u>	<u>\$ 7,597,553</u>

**NOTE 3 – CASH AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2004 and 2003, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. With the exception of the assets held in trust, the Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital's assets held in trust are category 2 which means that some of the assets may be uninsured and unregistered securities that are held by a trust department or agent in the Hospital's name.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

Investments are stated at fair value.

	2004	2003
By the board for capital improvements		
Certificates of deposit	\$ 416,493	\$ 412,143
Money market accounts	1,183,328	1,177,823
Accrued interest receivable	3,153	5,551
FNMA bonds '04	193,930	193,930
	<u>\$ 1,796,904</u>	<u>\$ 1,789,447</u>
Under loan agreement		
Certificates of deposit	\$ 226,417	\$ 186,430
Money market accounts	84,254	-
	<u>\$ 310,671</u>	<u>\$ 186,430</u>
By donors for specific purposes		
Certificates of deposit	\$ 192,282	\$ 191,765
Beneficial interest in net assets of Arnold Trust	513,250	513,250
Money market	175,652	-
	<u>\$ 881,184</u>	<u>\$ 705,015</u>
By donors for permanent endowment fund		
Certificates of deposit	<u>\$ 53,087</u>	<u>\$ 53,087</u>
Beneficial interest in net assets of Arnold Trust	<u>\$ 557,975</u>	<u>\$ 492,309</u>

**NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT**

A summary of land, buildings, and equipment at June 30, 2004 and 2003, is as follows:

	June 30, 2003				June 30, 2004
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 54,231	\$ 6,000	\$ 7,680	\$ -	\$ 52,551
Land improvements	91,618	-	-	-	91,618
Building and improvements	6,960,525	503,159	-	1,159,419	8,623,103
Construction in progress	1,301,591	-	-	(1,159,419)	142,172
Equipment	4,257,497	728,981	396,466	-	4,590,012
	<u>\$ 12,665,462</u>	<u>\$ 1,238,140</u>	<u>\$ 404,146</u>	<u>\$ -</u>	<u>\$ 13,499,456</u>

(continued on next page)

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

	June 30, 2003				June 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Accumulated depreciation					
Land improvements	\$ 62,670	\$ 2,823	\$ -	\$ -	\$ 65,493
Buildings and improvements	2,171,760	365,609	-	-	2,537,369
Equipment	<u>3,141,082</u>	<u>389,278</u>	<u>322,710</u>	<u>-</u>	<u>3,207,650</u>
	<u>\$ 5,375,512</u>	<u>\$ 757,710</u>	<u>\$ 322,710</u>	<u>\$ -</u>	<u>\$ 5,810,512</u>
	June 30, 2002				June 30, 2003
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 54,231	\$ -	\$ -	\$ -	\$ 54,231
Land improvements	74,116	17,502	-	-	91,618
Building and improvements	5,761,898	1,198,627	-	-	6,960,525
Construction in progress	196,864	1,104,727	-	-	1,301,591
Equipment	<u>3,974,215</u>	<u>356,555</u>	<u>73,273</u>	<u>-</u>	<u>4,257,497</u>
	<u>\$ 10,061,324</u>	<u>\$ 2,677,411</u>	<u>\$ 73,273</u>	<u>\$ -</u>	<u>\$ 12,665,462</u>
Accumulated depreciation					
Land improvements	\$ 60,430	\$ 2,240	\$ -	\$ -	\$ 62,670
Buildings and improvements	1,964,430	207,330	-	-	2,171,760
Equipment	<u>2,843,387</u>	<u>358,225</u>	<u>60,530</u>	<u>-</u>	<u>3,141,082</u>
	<u>\$ 4,868,247</u>	<u>\$ 567,795</u>	<u>\$ 60,530</u>	<u>\$ -</u>	<u>\$ 5,375,512</u>

The majority of construction in progress at June 30, 2004, represents the OB renovation. The estimated cost to complete this project is \$260,000 which will be financed with Hospital funds.

**NOTE 5 – RESTRICTED NET ASSETS**

Restricted net assets consist of the following at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Leffler Fund	\$ 25,000	\$ 25,000
Israel Fund	29,807	29,290
Douthart Fund	186,691	186,691
Plowman Fund	101,437	101,437
Ruebel Fund	50,000	50,000
De Voss Fund	28,086	28,086
Arnold Trust	<u>513,250</u>	<u>513,250</u>
Total restricted net assets	<u>\$ 934,271</u>	<u>\$ 933,754</u>

(continued on next page)

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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The Leffler Fund is an endowment fund with the interest being available to be applied to patient accounts if the patient is unable to pay. The principal portion of the fund, which is \$25,000, cannot be expended.

The Israel Fund is restricted to expenditures for the comfort and convenience of visitors to the Hospital. During the years ended June 30, 2004 and 2003, there were no expenditures from the fund.

The Douthart Fund is restricted for the purchase of medical equipment as designated by the medical staff.

The Plowman and Ruebel Funds are restricted for improvements to the Hospital.

The De Voss Fund is an endowment fund with interest being available to be applied to patient accounts if the patient is unable to pay. The principal portion of the fund, which is \$28,086, cannot be expended.

The Arnold Trust provides that its funds be held or distributed for the benefit of Van Buren County Hospital. The Trust is to be held in trust for a period of 25 years, which ends July 2019. The income from the trust shall be distributed to the Hospital on a yearly basis during the 25-year period. Unrealized gains of the Trust are unrestricted.

A summary of the Trust's assets, net assets, and changes in net assets follows. The Hospital's interest in the net assets of the Trust is reported as a non-current asset in the balance sheets.

	June 30	
	2004	2003
Cash and cash equivalents	\$ 14,832	\$ 31,439
Certificate of deposit	52,609	-
Marketable equity securities	490,534	411,930
U.S. Government securities	-	48,940
Total assets	<u>\$ 557,975</u>	<u>\$ 492,309</u>
Net assets		
Restricted	<u>\$ 557,975</u>	<u>\$ 492,309</u>
Change in unrealized gains and losses	\$ 65,666	\$ 1,551
Net assets, beginning of year	<u>492,309</u>	<u>490,758</u>
Net assets, end of year	<u>\$ 557,975</u>	<u>\$ 492,309</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 6 – LEASES**

The Hospital leases equipment under noncancellable long-term lease agreements. Two leases have been recorded as capitalized leases. The capitalized leased assets at June 30, 2004 and 2003, consist of:

	<u>2004</u>	<u>2003</u>
Equipment	\$ 271,614	\$ 271,614
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(222,946)</u>	<u>(183,561)</u>
	<u>\$ 48,668</u>	<u>\$ 88,053</u>

Minimum future lease payments for the capital leases are as follows:

<u>Year Ending June 30,</u>	
2005	\$ 16,932
2006	16,932
2007	<u>2,822</u>
Total minimum lease payments	36,686
Less interest	<u>(2,567)</u>
Present value of minimum lease payments – Note 7	<u>\$ 34,119</u>

**NOTE 7 – LONG-TERM DEBT**

Long-term debt consists of:

	<u>June 30 2003 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2004 Balance</u>	<u>Amounts Due Within One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,131,249	\$ -	\$ -	\$ 1,131,249	\$ 14,897
Hospital revenue note, Series 1997A, 4.80% adjustable rate, due in annual payments of \$80,181 through February 2007	285,653	-	66,435	219,218	73,004
Hospital revenue note, Series 1997A, 7.08% adjustable rate, interest only due through February 2007, principal and interest due February 2008, through February 2017	500,000	-	-	500,000	-

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**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

	June 30 2003 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2004 <u>Balance</u>	Amounts Due Within <u>One Year</u>
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	\$ -	\$ 230,000	\$ -	\$ 230,000	\$ 3,456
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of \$80,265 due July 2006 through 2043	-	1,500,000	-	1,500,000	-
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of \$21,616 due July 2006 through 2033	-	350,000	-	350,000	-
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	-	80,000	-	80,000	7,482
Note payable to bank, 4.70% due in monthly payments of \$6,578 through April 2011, secured by equipment	-	470,000	9,481	460,519	58,534
Note payable to bank, 5.5%, due in monthly payments of \$6,341 through September 2004, secured by equipment	91,676	-	91,676	-	-
Construction loans to bank, 4.5%, due November 1, 2003.	1,578,982	-	1,578,982	-	-
Capitalized lease obligations – Note 6	<u>71,065</u>	<u>-</u>	<u>36,946</u>	<u>34,119</u>	<u>14,664</u>
	<u>\$ 3,658,625</u>	<u>\$ 2,630,000</u>	<u>\$ 1,783,520</u>	<u>4,505,105</u>	<u>\$ 172,037</u>
Less current maturities				<u>(172,037)</u>	
Long-term debt, less current maturities				<u>\$ 4,333,068</u>	

(continued on next page)



**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 172,037	\$ 209,821	\$ 381,858
2006	179,713	202,171	381,884
2007	188,338	195,123	383,461
2008	170,177	186,932	357,109
2009	175,743	177,844	353,587
Later years	<u>3,619,097</u>	<u>2,646,940</u>	<u>6,266,037</u>
	<u>\$ 4,505,105</u>	<u>\$ 3,618,831</u>	<u>\$ 8,123,936</u>

Under the terms of the Hospital Revenue Note, Series 1997B, the Hospital is required to make monthly transfers to a reserve account. At June 30, 2004, the Hospital had \$369,517 in the reserve account. The amount required to be on deposit at June 30, 2004 is \$340,146.

	<u>June 30 2002 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2003 Balance</u>	<u>Amounts Due Within One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,161,070	\$ -	\$ 29,821	\$ 1,131,249	\$ 14,897
Hospital revenue note, Series 1997A, 4.80% adjustable rate, due in annual payments of \$80,181 through February 2007	348,952	-	63,299	285,653	69,660
Hospital revenue note, Series 1997A, 7.08% adjustable rate, interest only due through February 2007, principal and interest due February 2008, through February 2017	500,000	-	-	500,000	-
Note payable to bank, 5.5%, due in monthly payments of \$6,341 through September 2004, secured by equipment	160,678	-	69,002	91,676	72,873
Construction loans to bank, 4.5%, due November 1, 2003.	-	1,578,982	-	1,578,982	-
Capitalized lease obligations	<u>116,788</u>	<u>-</u>	<u>45,723</u>	<u>71,065</u>	<u>36,369</u>
	<u>\$ 2,287,488</u>	<u>\$ 1,578,982</u>	<u>\$ 207,845</u>	<u>3,658,625</u>	<u>\$ 193,799</u>
Less current maturities				<u>(193,799)</u>	
Long-term debt, less current maturities				<u>\$ 3,464,826</u>	

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**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 8 – PENSION AND RETIREMENT BENEFITS**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$259,788, \$243,838, and \$230,215, respectively, equal to the required contributions for each year.

**NOTE 9 – MALPRACTICE INSURANCE**

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

**NOTE 10 – RISK MANAGEMENT**

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 11 – CONCENTRATION OF CREDIT RISK**

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2004 and 2003, was as follows:

	2004	2003
Medicare	34%	38%
Medicaid	14	7
Commercial insurance	19	24
Other third-party payors and patients	33	31
	<u>100%</u>	<u>100%</u>



*Consultants • Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTARY INFORMATION**

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The Board of Trustees  
Van Buren County Hospital  
Keosauqua, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Eide Bailly LLP*

Dubuque, Iowa  
September 2, 2004

**VAN BUREN COUNTY HOSPITAL****BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)  
YEAR ENDED JUNE 30, 2004**

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	<u>Actual Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Actual Cash Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Estimated amount to be raised by taxation	\$ 696,696	\$ -	\$ 696,696	\$ 703,245	\$ (6,549)
Estimated other revenues/ receipts	<u>9,306,861</u>	<u>375,464</u>	<u>9,682,325</u>	<u>8,967,154</u>	<u>715,171</u>
	10,003,557	375,464	10,379,021	9,670,399	708,622
Expenses/disbursements	<u>9,540,218</u>	<u>335,858</u>	<u>9,876,076</u>	<u>9,566,792</u>	<u>(309,284)</u>
Net	463,339	39,606	502,945	103,607	<u>\$ 399,338</u>
Balance beginning of year	8,379,128	(4,835,208)	3,543,920	8,038,470	
Capital contributions	<u>15,910</u>	<u>-</u>	<u>15,910</u>	<u>-</u>	
Balance end of year	<u>\$ 8,858,377</u>	<u>\$ (4,795,602)</u>	<u>\$ 4,062,775</u>	<u>\$ 8,142,077</u>	

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine services	\$ 1,783,266	\$ 1,629,025
Nursery	22,684	18,081
Operating rooms	262,446	230,858
Delivery and labor rooms	14,275	15,260
Central services and supply	654,831	603,724
Emergency service	994,546	904,111
Laboratory	1,246,281	1,025,649
Electrocardiology	117,338	106,086
Radiology	1,508,955	1,270,273
Pharmacy	1,309,468	1,084,536
Anesthesiology	109,368	94,033
Respiratory therapy	347,826	289,706
Physical therapy	660,054	562,629
Speech therapy	9,913	17,931
Ambulance service	319,486	282,887
Cardiopulmonary rehab	132,567	107,348
Durable medical equipment	62,660	50,046
Home health care	277,889	289,310
Medical staff	521,578	424,760
Rural health clinics:		
Douds	82,153	88,423
Birmingham	42,378	29,018
Cantril	18,736	22,273
Stockport	25,444	25,264
Keosauqua	694,034	663,523
Bonaparte	89,957	107,096
Farmington	98,656	106,151
Total patient service revenue*	<u>\$ 11,406,789</u>	<u>\$ 10,048,001</u>
 *TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 4,490,120	\$ 3,954,306
Outpatient revenue	<u>6,916,669</u>	<u>6,093,695</u>
Total patient service revenue	11,406,789	10,048,001
 DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments	<u>(2,565,608)</u>	<u>(2,250,890)</u>
 NET PATIENT SERVICE REVENUE	8,841,181	7,797,111
PROVISION FOR BAD DEBTS	<u>(230,385)</u>	<u>(199,558)</u>
 NET PATIENT SERVICE REVENUE (Net of provision for bad debts)	<u>\$ 8,610,796</u>	<u>\$ 7,597,553</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
OTHER OPERATING REVENUES		
Job opportunities	\$ 165,745	\$ 137,496
Day care center	119,824	87,444
Village Terrace	78,852	3,850
Continuous family support system grant	77,902	55,626
Wellmark Grant - CORP	28,699	-
Occupational health	24,220	27,070
Rent	23,279	21,971
Wellmark Grant - Tobacco Risk Awareness	17,506	27,480
Cafeteria	11,678	13,368
Tobacco-free grant	6,738	6,560
Medical records transcript fees	1,923	2,340
Cardiovascular risk	1,528	10,375
Local option tax	-	17,311
Wellmark Grant - Women	-	5,964
State replacement tax	-	4,454
Other	<u>1,774</u>	<u>44,607</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 559,668</u>	 <u>\$ 465,916</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 124,585	\$ 95,306
Supplies and other expenses	<u>4,952</u>	<u>5,736</u>
	<u>129,537</u>	<u>101,042</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	832,618	760,812
Supplies and other expenses	<u>127,346</u>	<u>88,922</u>
	<u>959,964</u>	<u>849,734</u>
<b>NURSERY</b>		
Salaries and wages	107	1,049
Supplies and other expenses	<u>43</u>	<u>-</u>
	<u>150</u>	<u>1,049</u>
<b>OPERATING ROOMS</b>		
Salaries and wages	47,076	38,222
Supplies and other expenses	<u>6,034</u>	<u>2,100</u>
	<u>53,110</u>	<u>40,322</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	24,695	25,717
Supplies and other expenses	<u>200,077</u>	<u>188,995</u>
	<u>224,772</u>	<u>214,712</u>
<b>EMERGENCY SERVICE</b>		
Salaries and wages	267,558	229,914
Supplies and other expenses	<u>23,334</u>	<u>12,209</u>
	<u>290,892</u>	<u>242,123</u>
<b>LABORATORY</b>		
Salaries and wages	160,357	137,070
Supplies and other expenses	<u>217,574</u>	<u>177,332</u>
	<u>377,931</u>	<u>314,402</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	9,836	8,389
Supplies and other expenses	<u>-</u>	<u>608</u>
	<u>9,836</u>	<u>8,997</u>
<b>RADIOLOGY</b>		
Salaries and wages	136,969	128,789
Supplies and other expenses	<u>312,972</u>	<u>299,268</u>
	<u>449,941</u>	<u>428,057</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>PHARMACY</b>		
Salaries and wages	\$ 16,249	\$ 16,347
Supplies and other expenses	<u>266,426</u>	<u>213,532</u>
	<u>282,675</u>	<u>229,879</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>82,753</u>	<u>75,587</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	118,704	108,602
Supplies and other expenses	<u>16,571</u>	<u>16,047</u>
	<u>135,275</u>	<u>124,649</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	256,817	247,807
Supplies and other expenses	<u>26,568</u>	<u>22,361</u>
	<u>283,385</u>	<u>270,168</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries and wages	1,975	925
Supplies and other expenses	<u>552</u>	<u>920</u>
	<u>2,527</u>	<u>1,845</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>3,672</u>	<u>2,419</u>
<b>AMBULANCE SERVICE</b>		
Salaries and wages	142,078	137,755
Supplies and other expenses	<u>27,910</u>	<u>22,677</u>
	<u>169,988</u>	<u>160,432</u>
<b>CARDIOPULMONARY REHAB</b>		
Salaries and wages	56,818	58,286
Supplies and other expenses	<u>5,091</u>	<u>2,836</u>
	<u>61,909</u>	<u>61,122</u>
<b>DURABLE MEDICAL EQUIPMENT</b>		
Salaries and wages	5,849	4,373
Supplies and other expenses	<u>5,695</u>	<u>8,547</u>
	<u>11,544</u>	<u>12,920</u>
<b>HOME HEALTH CARE</b>		
Salaries and wages	139,900	132,124
Supplies and other expenses	<u>23,968</u>	<u>20,880</u>
	<u>163,868</u>	<u>153,004</u>

(continued)



**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
MEDICAL STAFF		
Salaries and wages	\$ 361,404	\$ 353,130
Supplies and other expenses	<u>7,364</u>	<u>5,072</u>
	<u>368,768</u>	<u>358,202</u>
RURAL HEALTH CLINIC - DOUDS		
Salaries and wages	40,709	46,116
Supplies and other expenses	<u>19,352</u>	<u>22,840</u>
	<u>60,061</u>	<u>68,956</u>
RURAL HEALTH CLINIC - BIRMINGHAM		
Salaries and wages	28,473	24,791
Supplies and other expenses	<u>12,552</u>	<u>9,374</u>
	<u>41,025</u>	<u>34,165</u>
RURAL HEALTH CLINIC - CANTRIL		
Salaries and wages	21,599	25,538
Supplies and other expenses	<u>13,621</u>	<u>9,781</u>
	<u>35,220</u>	<u>35,319</u>
RURAL HEALTH CLINIC - STOCKPORT		
Salaries and wages	37,819	31,022
Supplies and other expenses	<u>14,674</u>	<u>11,435</u>
	<u>52,493</u>	<u>42,457</u>
RURAL HEALTH CLINIC - KEOSAUQUA		
Salaries and wages	546,822	505,859
Supplies and other expenses	<u>71,215</u>	<u>60,977</u>
	<u>618,037</u>	<u>566,836</u>
RURAL HEALTH CLINIC - BONAPARTE		
Salaries and wages	79,322	79,467
Supplies and other expenses	<u>26,479</u>	<u>23,806</u>
	<u>105,801</u>	<u>103,273</u>
RURAL HEALTH CLINIC - FARMINGTON		
Salaries and wages	75,829	70,116
Supplies and other expenses	<u>33,348</u>	<u>25,496</u>
	<u>109,177</u>	<u>95,612</u>
CONTINUOUS FAMILY SUPPORT SYSTEM		
Salaries and wages	46,162	38,546
Supplies and other expenses	<u>21,594</u>	<u>14,884</u>
	<u>67,756</u>	<u>53,430</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>WELLMARK GRANT - WOMEN</b>		
Salaries and wages	\$ -	\$ 4,113
Supplies and other expenses	<u>75</u>	<u>963</u>
	<u>75</u>	<u>5,076</u>
<b>WELLMARK GRANT - TOBACCO RISK AWARENESS</b>		
Salaries and wages	11,456	12,726
Supplies and other expenses	<u>10,489</u>	<u>13,177</u>
	<u>21,945</u>	<u>25,903</u>
<b>TOBACCO-FREE PROGRAM</b>		
Salaries and wages	4,236	2,491
Supplies and other expenses	<u>1,028</u>	<u>1,866</u>
	<u>5,264</u>	<u>4,357</u>
<b>STORE ROOM</b>		
Salaries and wages	43,176	35,753
Supplies and other expenses	<u>14,231</u>	<u>5,035</u>
	<u>57,407</u>	<u>40,788</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	166,721	131,320
Supplies and other expenses	<u>16,391</u>	<u>8,960</u>
	<u>183,112</u>	<u>140,280</u>
<b>DIETARY</b>		
Salaries and wages	106,883	101,383
Supplies and other expenses	<u>86,955</u>	<u>78,703</u>
	<u>193,838</u>	<u>180,086</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	133,264	123,480
Supplies and other expenses	<u>253,203</u>	<u>190,445</u>
	<u>386,467</u>	<u>313,925</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	110,234	102,212
Supplies and other expenses	<u>18,108</u>	<u>15,654</u>
	<u>128,342</u>	<u>117,866</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	29,721	26,642
Supplies and other expenses	<u>16,842</u>	<u>6,189</u>
	<u>46,563</u>	<u>32,831</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	\$ 409,896	\$ 367,276
Supplies and other expenses	<u>491,861</u>	<u>496,100</u>
	<u>901,757</u>	<u>863,376</u>
DAY CARE CENTER		
Salaries and wages	108,995	91,083
Supplies and other expenses	<u>33,735</u>	<u>25,130</u>
	<u>142,730</u>	<u>116,213</u>
FARM HEALTH AND SAFETY		
Salaries and wages	-	430
Supplies and other expenses	<u>193</u>	<u>4</u>
	<u>193</u>	<u>434</u>
JOB OPPORTUNITIES		
Salaries and wages	120,634	117,890
Supplies and other expenses	<u>23,717</u>	<u>22,222</u>
	<u>144,351</u>	<u>140,112</u>
CARDIOVASCULAR RISK		
Salaries and wages	1,117	4,421
Supplies and other expenses	<u>282</u>	<u>1,451</u>
	<u>1,399</u>	<u>5,872</u>
OCCUPATIONAL HEALTH		
Salaries and wages	21,344	17,191
Supplies and other expenses	<u>12,250</u>	<u>16,379</u>
	<u>33,594</u>	<u>33,570</u>
VILLAGE TERRACE		
Salaries and wages	39,595	6,726
Supplies and other expenses	<u>33,889</u>	<u>12,225</u>
	<u>73,484</u>	<u>18,951</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	769,898	579,981
Insurance	168,510	136,447
Employee benefits	<u>937,091</u>	<u>862,216</u>
	<u>1,875,499</u>	<u>1,578,644</u>
TOTAL OPERATING EXPENSES	<u>\$ 9,348,087</u>	<u>\$ 8,268,997</u>

**VAN BUREN COUNTY HOSPITAL**  
**PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**JUNE 30, 2004 AND 2003**

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**ANALYSIS OF AGING**

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
<u>Days Since Discharge</u>	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
30 days or less	\$ 1,009,529	30.97%	\$ 895,533	33.83%
31 to 90 days	613,318	18.82	681,441	25.74
91 to 180 days	399,598	12.26	206,420	7.80
181 days and over	<u>1,236,792</u>	<u>37.95</u>	<u>863,595</u>	<u>32.63</u>
	3,259,237	<u>100.00%</u>	2,646,989	<u>100.00%</u>
Less: Allowance for doubtful accounts	230,000		190,000	
Allowance for contractual adjustments	<u>1,190,000</u>		<u>1,150,000</u>	
Net	<u>\$ 1,839,237</u>		<u>\$ 1,306,989</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
BALANCE, BEGINNING OF YEAR	\$ 190,000	\$ 145,000
Add: Provision for bad debts	230,385	199,558
Recoveries of accounts written off	51,112	75,164
Less: Accounts written off	<u>(241,497)</u>	<u>(229,722)</u>
BALANCE, END OF YEAR	<u>\$ 230,000</u>	<u>\$ 190,000</u>

**VAN BUREN COUNTY HOSPITAL**  
**SUPPLIES/PREPAID EXPENSES**  
**JUNE 30, 2004 AND 2003**

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	<u>2004</u>	<u>2003</u>
SUPPLIES		
General supplies	\$ 103,444	\$ 94,991
Pharmacy	64,100	69,545
Dietary	<u>7,255</u>	<u>6,719</u>
	<u>\$ 174,799</u>	<u>\$ 171,255</u>
 PREPAID EXPENSES		
Insurance	\$ 25,485	\$ 35,722
Dues	4,514	5,510
Maintenance agreements and other	<u>83,615</u>	<u>78,444</u>
	<u>\$ 113,614</u>	<u>\$ 119,676</u>

**VAN BUREN COUNTY HOSPITAL**  
**COMMUNITY SERVICE/OUTREACH UNREIMBURSED SERVICES PROVIDED BY THE**  
**HOSPITAL TO THE COMMUNITY**  
**YEAR ENDED JUNE 30, 2004**

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SERVICE	
Day care loss	\$ 35,478
Blood pressure screening/free vaccinations	6,000 *
Occupational health	11,843
Hospital facilities for meetings	2,500 *
Adopt-A-Highway	<u>400 *</u>
	<u>\$ 56,221</u>

\* Represents estimated dollar value of volunteer hours.

**VAN BUREN COUNTY HOSPITAL**  
**STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
PATIENT DAYS		
Acute	1,985	1,615
Swing-bed	3,487	3,402
Newborn	69	55
NUMBER OF BEDS	25	25
PERCENT OF OCCUPANCY	60%	55%
DISCHARGES		
Acute	635	549
Swing-bed	267	219
AVERAGE LENGTH OF STAY		
Acute	3.13	2.94
Swing-bed	13.06	15.53
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Private rooms	\$ 425.00	\$ 425.00
2-bed rooms	415.00	415.00
Nursery	328.75	328.75
COLLECTION STATISTICS		
Net accounts receivable – patients	\$ 1,839,237	\$ 1,306,989
Number of days charges outstanding (1)	85	65
Uncollectible accounts (2)	\$ 290,879	\$ 260,354
Percentage of uncollectible accounts to total charges	2.5%	2.6%

- (1) Based on average daily net patient service revenue for April, May, and June.  
(2) Includes provision for bad debts and collection expense.



Consultants • Certified Public Accountants

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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The Board of Trustees  
Van Buren County Hospital  
Keosauqua, Iowa

We have audited the accompanying balance sheets of **Van Buren County Hospital** as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated September 2, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the financial statements of **Van Buren County Hospital** are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comment item II-E-04 has not been resolved.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Van Buren County Hospital's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **Van Buren County Hospital's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as item I-A-04, in the accompanying Schedule of Findings.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. Prior year reportable condition item I-A-04 has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Van Buren County Hospital** and other parties to whom **Van Buren County Hospital** may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Van Buren County Hospital** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Side Bailey LLP*

Dubuque, Iowa  
September 2, 2004

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2004**

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**Part I: Findings Related to the Financial Statements**

**REPORTABLE CONDITION:**

I-A-04      Segregation of Duties - One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Hospital should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are aware of the situation and will continually review the assignment of duties to obtain the maximum control possible under the circumstances.

Conclusion - Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting**

II-A-04      Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04      Certified Budget - Hospital disbursements during the year ended June 30, 2004, exceeded amounts budgeted by \$309,284.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-04      Questionable Expenditures - We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04      Travel Expense - No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-E-04      Business Transactions - The Hospital had transactions with businesses owned by spouses of employees as follows:

Advertising	\$	9,904
Landscaping		2,270
Mowing		490

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2004**

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- II-F-04      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-04      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.